



# THE ECONOMICS OF PAID AND UNPAID LEAVE

The Council of Economic Advisers

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## Executive Summary

Since the beginning of his Administration, President Obama has focused on creating real, lasting security for the middle class by encouraging our nation's workplaces to better support working families. As part of this commitment to an economy that works for everyone, including those balancing work and family, the President has included funding for the Department of Labor to create a State Paid Leave Fund to help states with start-up costs of establishing paid leave programs in his budget every year since taking office. In addition, the Department of Labor worked with the Bureau of Labor Statistics to better understand who has access to paid and unpaid leave in the workplace and commissioned an additional survey that focused on those who have taken, took, or had unmet need for leave. We report the findings of that data collection and summarize research that shows that paid and unpaid leave can help workers balance obligations at home and in the workplace—and help parents and those with medical needs remain in the workforce.

*The latest data demonstrate that a significant fraction of the population lacks access to leave policies, especially paid leave:*

- According to the latest survey of employees, 77 percent of workers report having some ability to take unpaid leave. Nearly three-quarters (73 percent) can take unpaid leave if they have an illness, and 60 percent can do so for the birth of a child.
- Only 53 percent of workers report being able to take some type of paid leave for their own illness and only 39 percent report being able to take some type of paid family leave for the birth of a child. More workers report access to paid leave than employers report providing it—only 11 percent of workers are covered by formal paid family leave policies according to employers. The gap between workers' and employers' reports suggests that informal arrangements with managers and the use of other forms of leave, like paid vacation, may currently be playing an important role.
- There are large disparities in access to paid leave across groups, with access to paid leave being particularly low among Hispanics, less educated workers, and low wage workers. Taking into account this “benefits gap,” inequality in total compensation between more and less advantaged groups is even greater than inequality in income alone.
- In addition to paid leave, workers also use the equivalent of about five days of unpaid leave per year, including low-wage workers who are the least able to afford unpaid leave.
- There is widespread need for more leave, both paid and unpaid. For every 5 workers who used leave in a typical week, one additional worker reported that he or she “needed to take leave but could not do so” in 2011. High wage workers reported “too much work” as the principal reason while low wage workers were more likely to report that they “could not afford loss of income.”

*There is growing evidence that policies that support working families can benefit families without imposing a cost on businesses:*

- This report examines the cost and benefits of family leave programs from an employer's perspective and finds that leave, whether paid or unpaid, can have a positive effect on long-term productivity by improving recruitment, retention, and employee motivation.
- Three states have adopted and implemented paid family leave and a number of state and local governments have introduced paid sick leave. We review the effects of these policies on both working families and businesses. A survey of 253 employers affected by California's paid family leave initiative found that the vast majority – over ninety percent – reported either positive or no noticeable effect on profitability, turnover, and morale.<sup>1</sup>

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<sup>1</sup> Appelbaum and Milkman (2011).

<sup>2</sup> Klerman, et al. (2013). In order to be eligible for FMLA leave, an employee must have worked at an employer for at least a year, worked at least 1,250 hours over the prior year, and work at a location with 50 or more

## I. Introduction

The composition of the workforce has drastically changed over the last half-century. Almost half of the workforce is now women, married couples are increasingly sharing childcare responsibilities, and people are living—and working—longer than in the past. Given the growing number of dual-earner families, today's workers are trying to balance work, childcare, and eldercare, as well as other responsibilities. In particular, families increasingly need to take time off around the birth or adoption of a child, for their own medical needs, or when a family member becomes ill.

This evolving need for caregiving, whether for self or family, requires the ability to take time off from work. Formal sick leave policies allow workers to take a leave, usually for a short period, to recover from an illness, attend a doctor's appointment, or care for sick family members. Formal family leave policies—both maternity leave and paternity leave—allow recent mothers and fathers to take an extended absence from work while guaranteeing that they can return to their job and continue progressing in their careers.

Even when unpaid leave is available, workers may be unable or unwilling to forego lost wages. Paid family leave allows mothers and fathers to take extended periods off work while receiving replacement wages, an important distinction, especially for lower income parents who would not be able to take time off otherwise.

Despite the increasing need for leave policies, many American workers still lack access to unpaid and paid leave. The Family and Medical Leave Act (FMLA) of 1993 guarantees up to twelve weeks of unpaid leave with employer benefits for qualified medical and family reasons. Moreover, due to a number of exemptions, the FMLA only covers about 60 percent of American workers and less than a fifth of all new mothers.<sup>2</sup> However, even if workers are covered, many cannot afford to take advantage of the FMLA's guarantee of 12 weeks unpaid leave given the large loss of income it entails. The United States is currently the only developed country that does not offer government-sponsored paid maternity leave. Many of these countries also provide paid paternity leave, elder care benefits, and generous paid sick leave. In the United States some businesses have voluntarily adopted leave policies, and three state governments – California, New Jersey, and Rhode Island – have enacted legislation implementing paid family leave. As this report documents, however, far too many Americans lack access to the kind of leave policies that meet the evolving needs of today's families.

This report examines the composition of workers with access to paid and unpaid leave using the 2011 American Time Use Survey (ATUS), the best available source for detailed data on workers' access to and experience with leave. The survey confirms, that a large fraction of American workers lack access to paid leave, including paid leave for an illness or for the birth of a child. Use of unpaid leave is more common, even among low wage workers who may be least able to afford such an interruption of income. The time use data also demonstrate that the unmet need for paid leave is particularly acute among the most disadvantaged

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<sup>2</sup> Klerman, et al. (2013). In order to be eligible for FMLA leave, an employee must have worked at an employer for at least a year, worked at least 1,250 hours over the prior year, and work at a location with 50 or more employees.

populations. In addition, we find large disparities among workers with different educational attainment and between Hispanics and non-Hispanics, even after controlling for differences in wages.

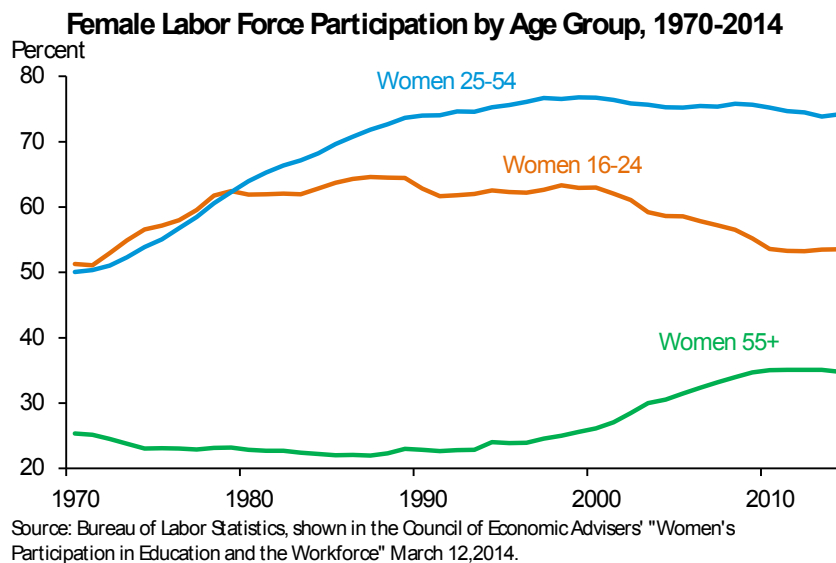
The National Compensation Survey, a survey of employers, also provides information on workers' access to leave policies. While the employee survey asks about access to leave for the birth of a child, which may include a variety of ad hoc policies or the ability to use other forms of leave, this survey asks specifically about formal family leave programs, as well as other types of paid leave. The survey finds that a small minority of private-sector workers—only 11 percent—have paid family leave at their job while 61 percent have access to paid sick leave. Overall, results from this employer survey confirm that many individuals lack access to paid leave.

This report also examines the economic implications of leave policies, and the effect on businesses in particular. By enabling workers who would have otherwise dropped out of the labor force to instead take short-term leave, such policies could benefit their employer's long-term productivity by improving recruitment, retention, and worker motivation. There is also increasing evidence that employers can offer greater flexibility to their workers, in terms of leave provisions and alternative work arrangements, without negative impacts on profitability.

In addition to examining the current state of paid and unpaid leave, this report sheds light on the role of state and local governments in expanding access to leave when businesses have not. In 2004, California became the first state to implement a paid family leave policy. Since then several other states have created similar programs and a number of state and local governments have introduced paid sick leave. Currently, even more state and local governments are currently considering ways in which they can ensure that all of their citizens have access to needed paid leave policies.

## II. Changing American Family and the Need for Family Leave

Over the last few decades, the composition of the workforce and the composition of families have changed in important ways. Whereas about half of prime-aged women (age 25-54) were in the workforce in 1970, about three-quarters were in the labor force by the early 1990s. At the same time, the labor force participation rate for prime-age men fell slightly (from about 96 to 93 percent), but remains high. As a result, the number of dual-earner couples increased over this period.<sup>3</sup> Since the 1990s, female participation in the labor force has stalled, but due in part to their increasing educational attainment and increasing hours worked, women's earnings have become an increasingly significant share of total household earnings: currently, women are breadwinners or co-breadwinners in two-thirds of families with children.<sup>4</sup>



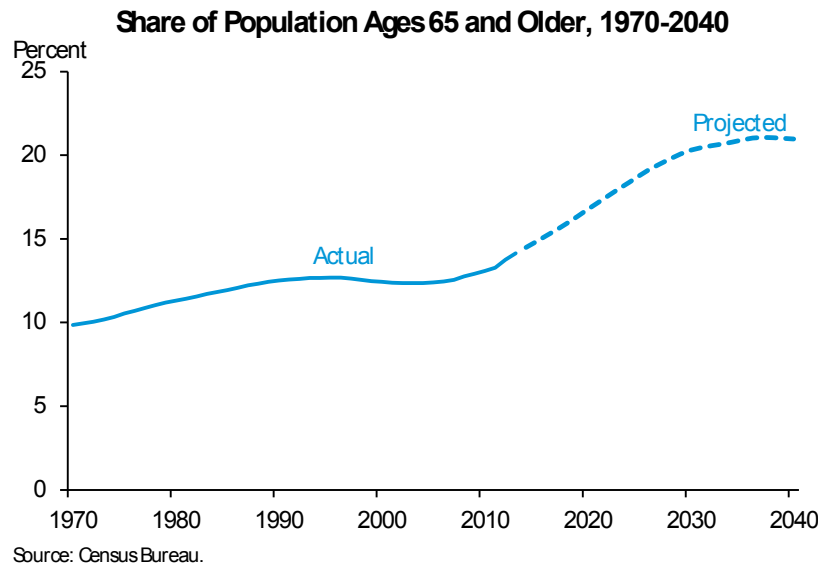
Over the same period that women were entering the workforce, the fraction of children living in a family with married parents fell from 77 percent in 1970 to 69 percent by 2013, while the fraction of children living with a single mother or single father increased. This trend, combined with the rise of dual-earner households, has resulted in 63 percent of children living in a family where all parents work.

The challenges of juggling work and family are particularly acute in single parent households. Not only have these types of households become more prevalent as marriage rates have fallen, single mothers today are more likely to be working relative to twenty years earlier. In 2013, 56 percent of single mothers with children younger than 3, and 65 percent of all single mothers, had a job.<sup>5</sup> Balancing these two jobs – work for her employer and work for her family – often requires the type of flexibility that leave offers.

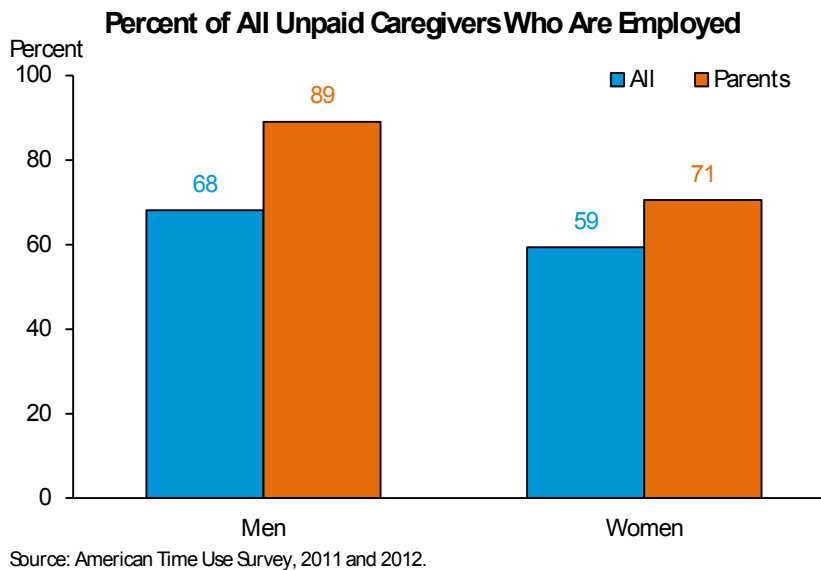
<sup>3</sup> Waldfogel (2001).

<sup>4</sup> Boushey, O'Leary, and Glynn (2013). Breadwinners are defined as single working mothers or married working mothers who earn at least as much as their spouse. Co-breadwinners are married mothers who earn at least 25 percent of the couple's earnings.

<sup>5</sup> BLS (2014).



Caregiving extends beyond just children—eldercare is a growing responsibility of workers due to the fact that the American population is getting older. The share of the population age 65 and older is larger today than it was at any point during the 20<sup>th</sup> century. For people at advanced ages, unpaid family caregiving is the most common source of long-term care.<sup>6</sup> Each year in 2011-2012, about 16 percent of the population ages 15 and older provided unpaid eldercare.<sup>7</sup>



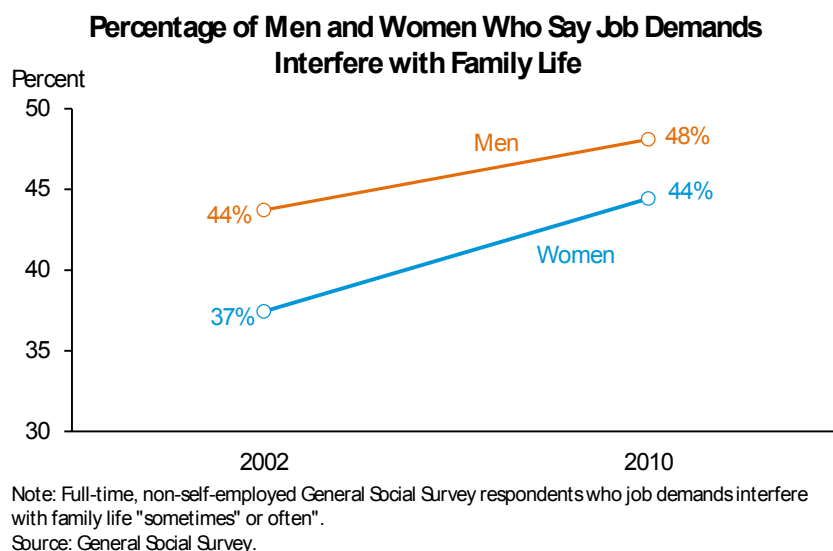
Almost half (45 percent) of individuals who provided eldercare are part of the “sandwich generation”—meaning that they care for both their elderly parents and their young children. Members of the sandwich generation are often employed and work full-time: more than three-quarters (78 percent) were employed, and 62 percent worked full-time.<sup>8</sup> As Americans live

<sup>6</sup> Houser, Gibson, and Redfoot (2010).

<sup>7</sup> BLS (2013a)

<sup>8</sup> BLS (2013b)

longer and the number of elderly family members increases, more episodic events that require time away from work to care for loved ones will occur, further necessitating policies that help the working-age population more effectively balance family and career demands.



Surveys confirm that the changing nature of the American family means that workplace flexibility, and the ability to take leave in particular, is increasingly important. The percent of non-self-employed full-time men and women who said that their job was interfering with family life increased between 2002 and 2010. In 2010, 44 percent of women and 48 percent of men said that work interferes with family “sometimes” or “often.”<sup>9</sup> This is larger than the percent that say family interferes with work: less than one-third of women and less than one-fourth of men say it is difficult to take time off for personal or family matters. Moreover, 9 out of 10 Americans believe that employers should try to offer workers flexibility to meet their families’ needs, so long as the work gets done.<sup>10</sup> Moreover, more than half of workers think that they could do their job better if they were allowed a more flexible schedule.<sup>11</sup>

The ability to take paid or unpaid leave has important implications for both families and employers, especially for new mothers and fathers. There is increasing evidence that having access to maternity leave increases the likelihood that mothers return to work and continue progressing in their careers. Recent research has examined the implementation of California’s paid family leave and found that it increased the weekly hours and pay of employed mothers of 1- to 3-year-old children by almost 10 percent.<sup>12</sup> Similarly, researchers have found that access to paid leave increased the likelihood of a new mother returning to her employer in the US, Britain, and Japan.<sup>13</sup> This research demonstrates that maternity leave, particularly when there is job protection required by law, can positively impact mothers’ wages and employment in the long-run by encouraging them to return to their prior job and by

<sup>9</sup> CEA analysis of General Social Survey

<sup>10</sup> Harris Poll of 4,096 U.S. adults (aged 18+), conducted online May 27-30, 2014.

<sup>11</sup> Harris Poll of 4,096 U.S. adults (aged 18+), conducted online May 27-30, 2014.

<sup>12</sup> Rossin-Slater, Ruhm, and Waldfogel (2011).

<sup>13</sup> Waldfogel, Higuchi, and Abe (1999).



protecting against the loss of specific human capital. It also highlights how paid leave contributes to higher labor force participation and a stronger economy.

### *The Impact of Leave on Health*

The benefits of leave also extend to workers' children and a number of researchers have identified a positive impact of maternity leave on infant outcomes such as birth weight and infant mortality. In particular, for college educated mothers able to take advantage of it, an expansion of unpaid leave has been found to increase birth weight, decrease premature birth, and lead to a substantial decrease in infant mortality.<sup>14</sup> An examination of European leave policies found that paid leave programs are a relatively cost-effective way to reduce infant mortality because family leave allows parents to better care for their child and monitor their child's health.<sup>15</sup> Moreover policies supporting parents often work together to benefit children. For instance, as part of the Affordable Care Act, employers must now provide a reasonable break time, as well as a private place for nursing mothers to express breast milk.<sup>16</sup> This both helps nursing mothers go back to work and makes it easier for mothers to continue nursing. Other studies have found that maternity leave increases women's likelihood of successfully nursing their infants.<sup>17</sup> There is also evidence that children have shorter hospital stays when their parents are able to stay home and care for them.<sup>18</sup> The current evidence on children's outcomes emphasizes the importance of the early childhood and prenatal environment, so there are likely large long-term benefits of policies that improve infant health.<sup>19</sup> One study found higher educational attainment, lower teen pregnancy rates, higher IQ scores, and higher earnings in adulthood for children whose mothers used maternity leave, suggesting paid leave policies can have long-term benefits as well.<sup>20</sup>

Children who do not have adequate parental care are more likely to show up sick to school and infect others. Studies also suggest that those with paid sick leave are more likely to utilize preventative health care such as cancer screening.<sup>21</sup> Researchers have also examined the impact of sick leave policies and found a number of health benefits. This implies that these policies provide wider benefits to society since workers with access to paid sick leave are more likely to utilize cost-effective methods to keep themselves (and those around them) healthy.

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<sup>14</sup> Rossin (2011).

<sup>15</sup> Ruhm (2000).

<sup>16</sup> Department of Labor

<sup>17</sup> For instance, see Roe et al. (1999) and Baker and Milligan (2008).

<sup>18</sup> Heymann (2001).

<sup>19</sup> Almond and Currie (2012).

<sup>20</sup> Carneiro, Loken, and Salvanes. (2011).

<sup>21</sup> Peipins et al. (2012).

### III. The State of Leave Access and Leave Use in the United States

The 2011 American Time Use Survey (ATUS) included a module providing detailed information on leave access, leave use, and unmet need for leave.<sup>22</sup> Workers were also asked whether they could adjust their work schedule or location instead of taking leave. Because the American Time Use Survey is linked to the Current Population Survey, it contains rich data on the characteristics of people surveyed. Previously, the best information on leave came from the National Compensation Survey (NCS), a survey of employers. While the NCS survey is informative about the total number of people with access to formal leave policies provided by their employer, it does not provide comprehensive information on the characteristics of people who lack access to leave or information on actual use of leave. The ATUS survey also provides unique data on workers' ability to adjust their schedules or location, each of which could help in balancing work and family obligations.

#### *Access to Paid and Unpaid Leave*

The ATUS leave module asked workers whether they could take paid or unpaid leave for any the following reasons: own illness or medical care, illness or medical care of a family member, childcare other than illness, eldercare other than illness, vacation, errands or personal reasons, or the birth or adoption of a child. Although workers may have access to general leave, it cannot always be used for all purposes. For instance, paid vacation days may be impractical to use for illness because an employer might require scheduling the time in advance. In the case of unpaid leave, the survey asks respondents whether they believe that they can take leave assuming they receive their employer's approval. To the extent that employers do not approve of unpaid leave, these statistics overstate the availability of unpaid leave.

Table 1 Access to Leave		
Reason	% Paid	% Unpaid
Family	48%	71%
Own Illness	53%	73%
Vacation	56%	60%
Source: ATUS 2011, CEA calculations. Family leaves refers to the ability to take leave for a family illness, eldercare, childcare, or the birth of a child.		

For all types of leave, paid leave is less common than unpaid leave. After vacation, sick leave is the most common type of paid leave provided –approximately 53 percent of workers report having access to paid sick leave to cover their own illness, but only 43 percent said they thought that they would be able to use paid leave to take care of family members who were ill. Even fewer workers reported being able to use paid leave to care for young or elderly family members – approximately 28 percent of workers reported being able to use paid leave

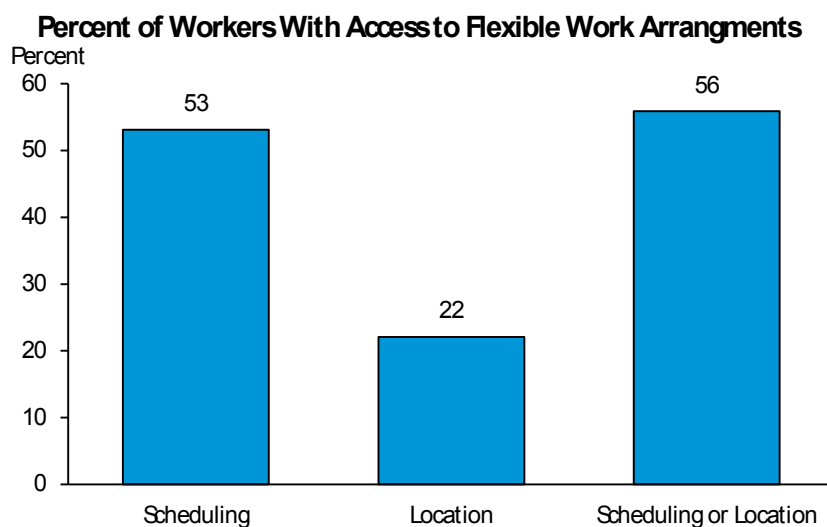
<sup>22</sup> In the survey, workers were asked whether they could take leave for a variety of reasons. If respondents answered “yes” they were assumed to have access to leave. A number of workers did not answer survey questions related to access to leave and were assumed to not have access, however it is possible some workers learn about access to leave when they need to take it.

for childcare, while 26 percent reported being able to use paid leave for eldercare. Overall, less than half of workers (48%) reported being able to take paid leave for any family-related reason.

The Family Medical Leave Act (FMLA), passed in 1993, made significant progress by requiring unpaid leave for covered workers. Under FMLA, employers are required to give 12 weeks of unpaid leave for qualifying reasons, including the birth of a child. The FMLA exempts many workers from coverage, however, including those at private businesses with fewer than 50 employees and those that work part-time. Due to the FMLA requirement, as well as businesses that voluntarily provide unpaid leave, 60 percent of workers in the survey reported that they could take unpaid leave for the birth of a child.

Fewer workers – only 39 percent – reported access to paid family leave for the birth of a child. Mothers reported only slightly more access to paid family leave than fathers. Overall, 38 percent of working men reported access to paid leave they could take for the birth of a child while 40 percent of working women reported such access. At the time of the survey, only residents of California and New Jersey, covering about 15 percent of the U.S. population, had state-implemented paid leave policies. The remainder of those with access to paid leave either had employers that voluntarily provided paid family leave, or could utilize other forms of paid leave such as vacation time or comp time for the birth of a child. Some of those who reported access to paid family leave likely take only minimal time off—in some cases access to paid leave for the birth of a child might mean using only a few paid vacation days.

### *Access to Scheduling and Location Adjustments*



Source: ATUS2011.

Scheduling adjustments and ability to change location of work may be another important tool to help workers balance work and family responsibilities. Often leave has to be planned in advance, which limits its usefulness in coping with unexpected emergencies. Scheduling adjustments can be an important tool to address unexpected issues outside of work. For instance, if a family member is sick, location flexibility—allowing workers to work from home—can be a good alternative to taking paid leave. Currently, about 56 percent of the workers reported that they could adjust their schedule or location, with the ability to adjust

schedules being far more common (53 percent) than the ability to change location (22 percent) (Figure 1).<sup>23</sup>

### *Unequal Access to Paid Leave*

Table 2 Access to Leave by Selected Worker Characteristics			
Leave Type	Access to Paid Leave	Access to Unpaid Leave	Schedule Adjustment for Location
Total	59%	77%	56%
Demographic Characteristics			
Male	60%	75%	56%
Female	57%	78%	56%
White, non-Hispanic	62%	78%	58%
Black, non-Hispanic	61%	77%	50%
Asian, non-Hispanic	62%	72%	60%
Hispanic	43%	71%	48%
Educational Attainment (Workers 25 and Older)			
Less than high school	35%	70%	37%
High school	61%	76%	48%
Some college	66%	78%	56%
Bachelor's degree or higher	72%	75%	60%
Weekly Earnings			
\$0-\$540	50%	78%	48%
\$541-\$830	77%	79%	49%
\$831-\$1230	81%	75%	51%
\$1230+	83%	75%	60%
All Workers			
Paid hourly	56%	80%	52%
Salaried	62%	73%	59%
Source: ATUS 2011; CEA calculations.			

The distinction between paid and unpaid leave is important, especially for low wage workers, since although unpaid leave may provide some flexibility, it is not a realistic option if workers

<sup>23</sup> The fraction of workers who report they have the ability to adjust their schedule is considerably higher than the share of workers who report having flexible schedules in the special supplement of May 2004 Current Population Survey (Council of Economic Advisers, 2010, "Work-Life Balance and the Economics of Workplace Flexibility" <http://www.whitehouse.gov/files/documents/100331-cea-economics-workplace-flexibility.pdf>). In the May 2004 supplement, 28 percent of full time workers reported having flexible schedules that allowed them to vary the start and end time of work. The difference is likely due to conceptual differences between the two surveys. The CPS question is more geared towards finding people with regular flextime schedules while the ATUS survey specifically asks respondents if they could adjust their schedules instead of taking leave (for those with access to leave) or because they need to take time away from work (for those without access to leave).

cannot afford to take it. The extension of paid family leave in California illustrates this point. While unpaid leave guaranteed by FMLA induced some educated mothers to take leave, the extension of paid maternity benefits especially increased leave taking among less advantaged mothers.<sup>24</sup>

The rich detail on worker characteristics available in the ATUS survey allows us to assess the extent to which unequal access to benefits further amplifies the inequality in wages and income. Using the National Compensation Survey, one study found that higher wage workers were significantly more likely to have access to leave. Total compensation inequality was about 10 percent higher than wage inequality alone and unequal leave access accounted for roughly one-third of this additional gap.<sup>25</sup> Using ATUS, we can examine disparities across gender, race, ethnicity, and education, in addition to wages. Table 2 examines access to paid leave, unpaid leave, and scheduling adjustments by various worker characteristics.

The analysis shows little disparity in access to unpaid leave. However, there are pronounced disparities in access to paid leave. Interestingly, according to ATUS, there is little difference in access to paid leave across gender, but there is big gap in access to paid leave, across Hispanics and non-Hispanics, with only 43 percent of Hispanics having access to paid leave in comparison to 61 percent among non-Hispanics. One question is to what extent these differences can be explained by differences in pay levels or by the concentration of Hispanic workers in particular occupations or industries. If Hispanics were in the same wage categories as non-Hispanics, approximately 53 percent would be predicted to have access to paid leave. In other words, wages can account for a great deal (54 percent) but not all of the difference. Controlling for differences in industries and occupations, 56 percent of the difference can be explained.

Approximately 50 percent of black workers have access to scheduling adjustments in comparison to 58 percent of white workers.<sup>26</sup> Again, this analysis demonstrates that total compensation inequality is greater than the inequality implied by take-home pay.

The most pronounced disparities in access to paid leave exist across education and wage levels. College-educated workers are twice as likely to have access to paid leave as workers without a high school degree (72 percent versus 35 percent). Comparing wage levels, full-times workers in the top income quartile are 1.7 times as likely to have access to paid leave as the workers in the bottom quartile (83 percent versus 50 percent). Access to scheduling adjustments also differ across education groups, again with the least educated having the least flexibility.

With child care-costs rising,<sup>27</sup> it is becoming harder for low-income parents to coordinate care for their children while working. Low-income parents are also less likely than other workers to

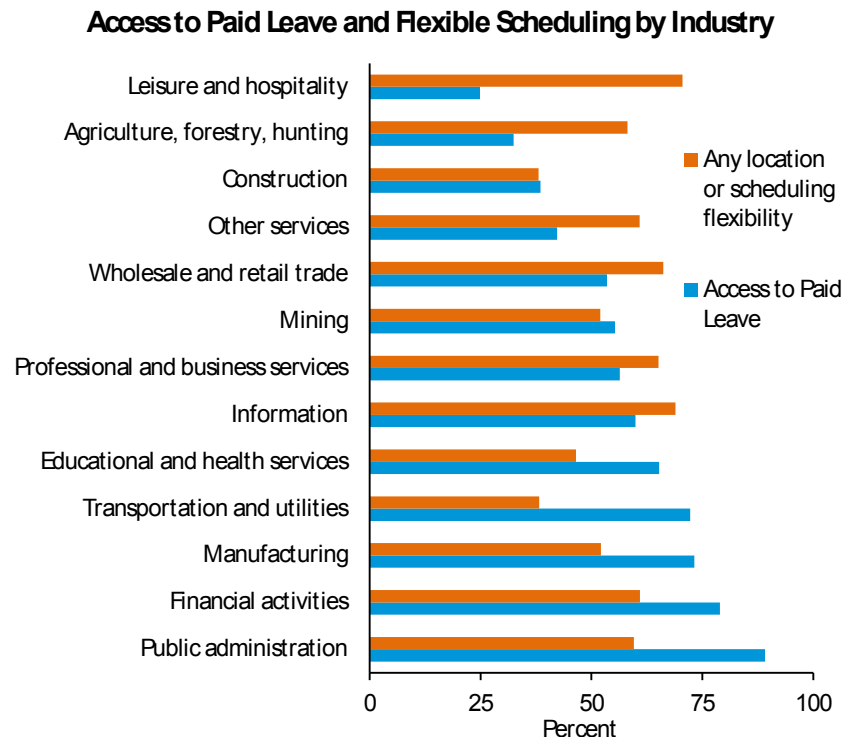
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<sup>24</sup> Rossin-Slater, Ruhm, and Waldfogel (2011)

<sup>25</sup> Pierce (2001). The data refer to 1995-1997. According to the paper the 90-10 log differential in wages was 1.55 while the 90-10 log differential in total compensation was 1.71 with leave contributing .061 points to the difference. Unlike voluntary contributions to benefits such as leave, pensions, and health insurance, legally contributed benefits such as unemployment insurance and workmen's compensation tended to *reduce* inequality.

<sup>26</sup> Black, White, and Asian categories include only non-Hispanic individuals.

have access to either paid leave or scheduling adjustments, making it even harder to care for children while working. The lack of access to arrangements that help parents care for children while maintaining a connection to the labor force may ultimately have a negative effect on the health and education of children with low-income working parents, as well as increase the cost of social services.



Source: ATUS2011.

Across industries, there is substantial variation in access to paid leave and flexible scheduling arrangements (Figure 2). Certain jobs, such as manufacturing production or construction jobs, require workers to be physically present at certain times. In such cases, workplace flexibility resulting in employee absences may be especially costly to employers. Construction is one industry that has both low levels of paid leave and low levels of scheduling flexibility. Other industries, such as leisure and hospitality, which includes food service workers, have low access to paid leave but offer relatively high levels of flexibility. Finally, some industries have substantial access to paid leave but little flexibility. Manufacturing, transportation and utilities, and education and health services fall into this category. Paid leave access appears to be predominantly related to the pay level of the industry, with high wage industries offering more benefits. For example, in the leisure and hospitality sector where average hourly wage is about \$14, less than 25 percent of workers report having paid leave, compared to almost 80 percent of workers in the financial activities sector.

It is important to note that the characteristics of these jobs are not fixed. Certain sectors have found ways to allow workers to have more flexible schedules by making better use of

<sup>27</sup> Census Bureau (2012).

technology and innovative business practices.<sup>28</sup> In some cases, there may be a cultural stigma around taking significant leave in certain industries.

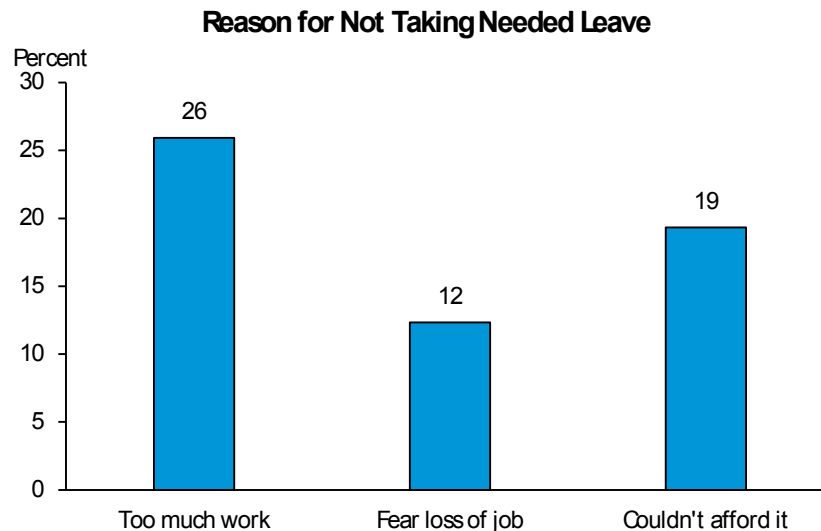
### *Use of Leave and Scheduling Adjustments*

Table 3 Leave Use and Hours		
Utilization	% Who use Leave	Hours of Leave Taken Among Those Using Leave
Overall		
Access to Paid or Unpaid Leave	23%	15.1
Access to Paid Leave	25%	15.8
Access to Unpaid Leave	23%	15.3
Access to Schedule/Location Changes	21%	
Leave Use with No Access to Schedule/Location Adjustments		
Access to Paid or Unpaid Leave	23 %	16.6
Access to Paid Leave	26%	17.4
Access to Unpaid Leave	23%	17.3
Leave Use with Access to Schedule/Location Adjustments		
Access to Paid or Unpaid Leave	23%	13.9
Access to Paid Leave	24%	14.3
Access to Unpaid Leave	23%	13.9
Source: ATUS 2011.		

Even though workers may have access to leave, they may not be able to take it. Some workers, especially lower-income workers and those who are their family's primary breadwinner, cannot forego wages from taking unpaid leave. Other workers may be pressured by their employer not to take leave. For these reasons, it is important to also examine the actual use of leave. Approximately 23 percent of workers took either paid or unpaid leave during a typical week. While fewer workers took unpaid leave, the average hours among those who took unpaid leave were slightly higher than those who took paid leave.

While 23 percent of workers took paid or unpaid leave during a typical week, an additional 4.1 percent reported they wanted to take leave but could not do so. The most common reasons for not being able to take leave included "too much work" (26 percent) and "could not afford loss in income" (19 percent). An additional 12 percent reported not taking leave because they feared losing their job. Less educated and low wage workers were much more likely to cite "could not afford loss of income" as a reason they did not take desired leave while college educated and high wage workers were more likely to cite "too much work." Again, this demonstrates that there is unmet demand for leave policies, especially paid leave for low-income workers.

<sup>28</sup> Goldin and Katz (2011)



Source: ATUS2011.

### *Survey of Employers*

The National Compensation Survey (NCS), a survey of employers, provides a picture of the availability of formal leave policies from the employer perspective. While ATUS respondents may say they have access to paid leave for the birth of a child, this may include a variety of informal policies and an ability to use other forms of leave for family reasons in addition to formal employer paid leave for family reasons.

According to the NCS, only 11 percent of private-sector workers have access to a formal paid family leave policy, including only 4 percent of part-time workers.<sup>29</sup> The NCS also reveals that workers at smaller firms have less access to paid leave—only 8 percent of those at establishments with fewer than 100 workers have access to paid family leave.<sup>30</sup>

Among all civilian workers, 65 percent responded that their employees had access to paid sick leave. The contrast between private and public (state and local) responses was especially sharp – private employers reported that 61 percent of their employees had access to paid sick leave, while public employers reported 89 percent.

Table 4			
Access to Leave (National Compensation Survey)			
Leave Type	%Paid Sick Leave	%Paid Vacation	%Paid Holidays
Civilian	65%	74%	76%
Private Industry	61%	77%	77%
State and Local Gov't	89%	59%	67%

Source: NCS.

In addition to the fact that NCS measures access to formal leave policies while ATUS measures the ability to take a leave of any length for a specific purpose, there are other

<sup>29</sup> Van Giezen (2013).

<sup>30</sup> Van Giezen (2013).



differences that explain why employers reported that less employees had access to paid family leave and more access to paid sick leave in the NCS than in ATUS. Some employees may lack the knowledge and understanding of their employer's leave policies, however lack of knowledge may mean de facto lack of access. Finally, many jobs have tenure thresholds, and new employees may report having no leave access even though they would be counted as having access in the employer survey.

Regardless of the reasons for the differences across the two surveys, there is one consistent message: a significant portion of American workers still lack access to paid sick leave.

#### **IV. The Business Case for Paid Leave**

A key argument posed by skeptics of paid family leave or flexible workplace policies is that such practices are costly and place an unfair burden on employers. However, the birth of a child or a serious illness is not a frequent event, and evidence from the states that have paid leave policies in place, as well as other developed countries, shows that these policies do not

cause undue interruptions in the workplace. In fact, a body of research finds that these practices can benefit employers by improving their ability to recruit and retain talent, lowering costly worker turnover and minimizing loss of firm-specific skills and human capital, as well as boosting morale and worker productivity.

Paid leave policies can help business recruit talented workers who plan to stay with a firm after having children. In a survey of two hundred human resource managers, two-thirds cited family-supportive policies, including flexible schedules, as the single most important factor in attracting and retaining employees.<sup>31</sup> Paid leave has been shown to increase the probability that women continue in their job after having a child, rather than quitting permanently, saving employers the expense of recruiting and training additional employees.<sup>32</sup> A review of 27 separate case studies found that the median cost of replacing an employee was 21 percent of that employee's annual salary – a substantial cost that can be reduced with family-friendly leave policies.<sup>33</sup>

Following implementation of state programs, most businesses reported no negative effect on profitability. A survey of 253 employers affected by California's paid family leave initiative found that the vast majority – over ninety percent – reported no noticeable or a positive effect on profitability, turnover, and morale.<sup>34</sup>

Paid sick leave also induces a healthier work environment by encouraging workers to stay home when they are sick. Workers who show up sick are likely to infect others and cause further productivity losses. A recent study investigating the effects of the 2009 H1N1 pandemic found that employee absences fell more rapidly after the peak of the pandemic among public sector workers (who had much higher access to paid sick leave) compared to private sector workers who were much less likely to have paid sick leave.<sup>35</sup>

Evidence suggests that workers do not abuse paid sick days. A survey of 251 employers conducted after Connecticut implemented a paid sick leave program found that employees did not abuse the policy by taking unnecessary sick days. About two-thirds of employers reported no increase in cost (47 percent) or an increase of less than 2 percent (19 percent) and the report's authors conclude that there is no business case for opposing paid sick days.<sup>36</sup> Another study examining the implementation of San Francisco's paid sick leave law in 2007 found no evidence of a negative effect on the economy. Unlike surrounding areas that did not have a paid sick leave law, San Francisco saw an increase in total employment after the implementation of the law.<sup>37</sup> The number of businesses also grew more rapidly in San Francisco than in surrounding areas in the same time period.<sup>38</sup>

Innovative, family-first companies have, of course, known about these advantages for some time now. A 1998 survey of large and medium-sized firms found that almost *half* of surveyed

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<sup>31</sup> Williams (2001).

<sup>32</sup> Rossin-Slater, Ruhm, and Waldfogel (2011).

<sup>33</sup> Not including executives and physicians. Boushey and Glynn (2012).

<sup>34</sup> Appelbaum and Milkman (2011a).

<sup>35</sup> Drago and Miller (2010).

<sup>36</sup> Appelbaum (2014).

<sup>37</sup> Petro (2010).

<sup>38</sup> Petro (2010).

firms reported a positive return on investment in their flexible work arrangements or caregiving leave policies, and 80 percent found such policies to be at least cost-neutral.<sup>39</sup> In New York, following a survey of 120 employers in 2000 and 2001, researchers found that those with flexible leave policies experienced significantly lower turnover and concluded that “these results are more likely to reflect causal impacts, rather than simple correlations”.<sup>40</sup> In a 2002 survey, researchers from the University of Cambridge determined that businesses with family-friendly policies, which includes either paid or unpaid leave, were more likely to have above average labor productivity than those without such policies. In that same survey, 90 percent of respondents characterized their family-friendly policies as cost-effective.<sup>41</sup>

One question is why, if such practices can be beneficial to employers, they have not already been adopted. Businesses may be slow to adapt their business practices to changes in the workforce, even when modernizing their organizations would be profitable.<sup>42</sup> One reason is that businesses may be reluctant to experiment with new initiatives and thus lack a full understanding of the long-run benefits, and instead focus on short-run cost-saving measures. This suggests that there is considerable scope for government to take a leadership role in spreading information about best management practices and that both workers *and* businesses can benefit as a result.

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<sup>39</sup> Galinsky and Bond (1998)).

<sup>40</sup> Baughman, DiNardi, and Holtz-Eakin (2003).

<sup>41</sup> Dex and Smith (2002).

<sup>42</sup> For example, Bloom et al. (2013) demonstrate that informational barriers may be sufficiently large and manager time sufficiently scarce that firms do not always adapt profit-maximizing business strategies.

## V. State and Local Leave Policies

Although some employers have voluntarily enacted paid leave policies, the results of this study confirm that many workers, especially those most in need, still lack access to these benefits.

Currently, three states have implemented paid family leave programs and Connecticut has implemented mandatory paid sick leave. In addition, Washington passed paid leave legislation but has not yet implemented the program. These programs are summarized in the table below. A number of states are also considering the feasibility of similar programs.

Table 5 Current State Leave Policies					
State	Type	Year Effective	Duration	Implementation	Replacement Rate
California	Family Leave	2004	6 weeks	Temporary Disability Insurance	Up to 55% to a maximum of \$1,067 a week in 2014
New Jersey	Family Leave	2009	6 weeks	Temporary Disability Insurance	Up to 66% to a maximum of \$595 a week
Washington	Family Leave	Passed in 2009, scheduled to begin in 2015			
Rhode Island	Family Leave	2014	4 weeks; job protection also offered	Temporary Disability Insurance	Up to 60% to a maximum of \$752 a week
Connecticut	Sick Leave	2012		Paid by employers	

### *Paid Family Leave*

In California, paid family leave benefits are available to almost all private sector workers, including non-profit workers and public-sector workers in agencies that opt into the program. The program provides six weeks of paid leave at approximately 55 percent of usual weekly earnings with a maximum weekly benefit of \$1,067 as of 2014, which is indexed to the state's average weekly wage. The paid family leave program extends the existing SDI system to create a paid family leave system, allowing California to capitalize on the existing administrative and revenue collection institutions. Pew estimates that 1.5 million workers have used the Paid Family Leave program since its inception.<sup>43</sup>

New Jersey extended their own temporary disability insurance system to create its paid family leave program, called Family Leave Insurance (FLI), in 2009. FLI is available to workers with at least 20 calendar weeks of covered employment and earned at least \$145 per week (or \$7,300 annually) in the 52 weeks preceding leave. Covered workers are eligible for 6 weeks of partial wage replacement in the 12 months after becoming a parent or any time for the care of an ailing family member. The wage replacement is paid at two thirds of the worker's average weekly wage, up to \$595 per week.

<sup>43</sup> Pew (2014).

Rhode Island also followed California and New Jersey's lead by extending its temporary disability insurance program in 2014 to provide paid leave for new parents and workers that need to care for a sick family member. All private sector employers are covered by the law, in addition to some public employers. The Rhode Island program, called Temporary Caregiver Insurance (TCI), leverages the benefits of extending the temporary disability insurance program to incorporate new benefits for caregiving. Weekly TCI benefits are paid at a rate equal to 4.6% of weekly wages from the highest quarter of the claimant's base period, up to \$752. Additional benefits may be available to workers with children under the age of 18 and disabled children over 18. This weekly "dependency allowance" is paid as the greater of \$10 or 7% of the standard benefit rate.

New York, Hawaii, and Puerto Rico also have temporary disability insurance systems and could implement similar programs as California, New Jersey, and Rhode Island. Washington State was the first state to pass a paid leave law not administered through a disability insurance program. Although the bill was passed in 2007, it faced a number of budgetary issues and implementation has been delayed three times. It is now slated to be implemented in October 2015. The Administration recognizes that implementing family paid leave programs, particularly in states without disability programs, presents challenges and the President's budget includes a State Paid Leave Fund at the Department of Labor that will help cover start-up costs for states that choose to launch paid leave programs.

### *Paid Sick Leave*

In 2012, Connecticut became the first state to implement legislation that required certain employers to offer paid sick leave to their workers. The law covers hourly (non-exempt) workers in the service sector employed by firms with at least 50 employees. Manufacturers and most non-profits are not required to provide paid leave; per diem and temporary workers are also not covered.<sup>44</sup> While only about 1 in 5 of Connecticut's workers are covered due to the many exceptions, a majority of part-time workers benefit from the earned leave law.

Covered workers in Connecticut earn one hour of paid leave for every forty hours worked, up to a total of forty hours of paid leave (five days) in a calendar year. In addition to personal illness, workers are able to use this leave to care for a sick spouse, a sick child, or in the wake of family violence.

Cities across the country have enacted statutes providing covered employees with the opportunity to accrue paid sick leave. In 2006, San Francisco became the first locality to pass a law enabling all workers in the city, including part-time and temporary workers, to accrue one hour of paid sick leave per every 30 hours worked beginning 90 days after employment. Under the law, San Francisco workers can earn up to a maximum of 5 to 9 days of sick leave per year, depending on employer size, to care for themselves, a family member, or another designated person.

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<sup>44</sup> Manufacturers are classified as such if they belong to sector 31, 32, or 33 in the North American Industrial Classification System (NAICS). Exempt non-profits must be national chartered and provide recreation, child-care, and educational services.

The District of Columbia followed suit in 2008, enabling qualified workers to accrue paid sick leave from up to 3 to 7 days per calendar year depending on employer size. The District's law went a step further, enabling eligible workers to use sick leave to obtain social or legal services if they or their family member is a victim of domestic violence, stalking, or sexual abuse. The law was expanded in 2014 to allow tipped restaurant and bar employees, a group that was previously ineligible to accrue sick leave, to earn one hour of leave per every 43 hours worked, up to 5 days annually. The recent change to the law also enables workers to begin accruing leave as they are employed rather than after one year with the same employer and 1,000 hours worked, as had been required under the 2008 law.

As of May 2014, Seattle, WA, Portland, OR, New York City, NY, Jersey City, NJ, and Newark, NJ, have passed paid sick leave legislation. More than twenty other states and cities currently have active campaigns, paid sick leave legislation, or ballot initiatives. At the same time, at least ten states have passed legislation barring cities and counties from passing their

#### *ADMINISTRATION INITIATIVES PROMOTING PAID LEAVE FOR WORKING FAMILIES*

Since taking office, the President has taken a number of steps to promote paid family and medical leave for working families.

- **Supporting paid sick leave.** To facilitate caregiving without loss of income, the Administration endorsed the Healthy Families Act, which enables workers to earn up to 7 paid days per year to care for themselves or a sick family member.
- **Helping states establish paid family leave funds.** To support states that choose to launch paid leave programs, the President's Budget includes \$100 million in the Opportunity, Growth, and Security Initiative and \$5 million State Paid Leave Fund at the Department of Labor that will provide competitive grants to help states cover start-up costs.
- **Supporting parental leave for federal employees.** Recognizing the importance of family bonding for child development and new parents' caregiving responsibilities, the Administration issued a Statement of Administrative Policy in support of the goals of the Federal Employees Paid Parental Leave Act, when the bill was passed by the House of Representatives. The legislation provides federal employees with access to paid leave to care for children upon birth, adoption, or fostering.
- **Modernizing the Family and Medical Leave Act.** The Family and Medical Leave Act (FMLA) provides access to up to 12 weeks of unpaid, job-protected leave, but about half of all workers are in firms that are not covered by the Act. Millions more may work for employers covered by the Act but they aren't qualified as individuals for the Act's protections. The President signed legislation that made it possible for flight attendants and crewmembers to access FMLA and expanded coverage for military families. The White House Task Force on the Middle Class has recommended exploring opportunities to expand access to FMLA to more workers.

own paid sick leave legislation.

## VI. Conclusion

With the rise in women's labor force participation, particularly among mothers, there are increasing demand on both men and women to balance work and family responsibilities. Relative to the pace of economic change, paid leave and flexible workplace policies have been slow to develop. There is still a substantial fraction of American workers without access to paid leave and workplace flexibility, and this gap is particularly severe among less educated and low wage workers. The U.S. lags all other advanced countries in providing paid family leave, an important reason why women's participation in the workforce has stalled in the U.S. and now lags many other developed nations.<sup>45</sup>

As this report demonstrates many businesses would benefit from offering more workers paid family leave as it improves retention and helps workers be more productive on the job. American families would benefit, many businesses would benefit, and our economy overall would benefit since making full use of American talent requires policies that let workers better balance their family lives. This report demonstrates the important role of paid leave in keeping American workplaces competitive in the 21<sup>st</sup> century.

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<sup>45</sup> International Labour Organization (2014).

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